

Government  
Publications

# Changing

## Directions.

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# ONTC at a Glance

The Ontario Northland Transportation Commission (ONTC) was established in 1902 to develop the Temiskaming and Northern Ontario Railway. From its initial mandate of constructing a 110-mile rail line between North Bay and the Tri-Town area, ONTC's mandate has been expanded over the years to meet the needs of Northern Ontario businesses and residential communities. Headquartered in North Bay, ONTC provides a variety of transportation and telecommunications services with approximately 1,060 full-time staff.

ONTC, a Schedule Two Agency of the Province of Ontario, is a development agency which promotes sustainable economic growth in Northern Ontario. ONTC develops and operates transportation and communication links across the area, and delivers services including those mandated by the Province. The company's purpose is to ensure that Northern Ontario's transportation and telecommunications

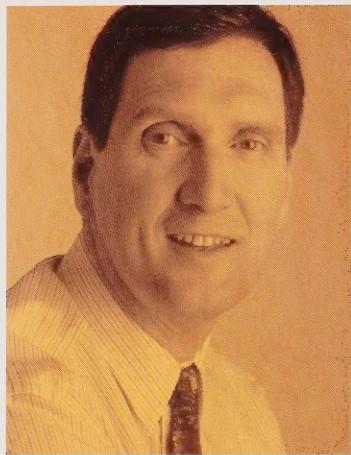
infrastructure is competitive, creating an attractive and modern region where businesses and communities can grow and prosper.

Operating primarily in Northeastern Ontario, ONTC's non-commercial (mandated) services include the Little Bear and Polar Bear Express (freight and passenger rail service between Cochrane and Moosonee), the Chi-Cheemaun (ferry service between the Bruce Peninsula and Manitoulin Island), and the Manitou Island II (barge/ferry service between Moosonee and Moose Factory Island). The company also operates the Northlander (passenger rail service between Cochrane and Toronto). Commercial services include rail freight, bus passenger service, O.N.Tel and the Pelee Island ferry service (operated under contract for the Ministry of Transportation).

Each of the services is examined in greater detail on the following pages.



# Message From the Commission Chair



This is my first message to the stakeholders of Ontario Northland as Chair. My predecessor, Matt Rukavina, retired in December after serving Ontario Northland for six years. He leaves an organization grateful for his enormous contribution, and deeply indebted to him. On behalf of all of us involved in or concerned with Ontario Northland, I offer Matt best wishes, and sincere thanks.

For over 95 years, Ontario Northland has operated primarily as a utility, in a monopoly environment. It has developed a culture appropriate to that environment. To respond to the new realities, we must graft entrepreneurial skills onto our traditional values of caution, stability, predictability and a focus on operational concerns. We must learn to take calculated risks, to embrace change, to find opportunity in the unpredictable, and to focus on our customers. In short, we must adopt the best, and most suitable, practices of the private sector; we must "Change Directions."

The Commission is determined to be a catalyst in this process; to assist and support management in introducing an entrepreneurial culture. To that end, we have restructured the manner in which the Commission operates in an effort to make better use of the skills and experience available among our number, to better focus on areas of concern, and to make the Commission function more like a private sector board of directors.

We have established a Committee comprised of members of the Commission and Ontario Northland staff to deal with safety, health and environmental affairs (SHEA). As is reported elsewhere, 1997 saw a significant improvement in our performance in this area. The Commission assigns SHEA issues the very highest priority, and exhorts all employees to do likewise. We will work assiduously toward further improvements.

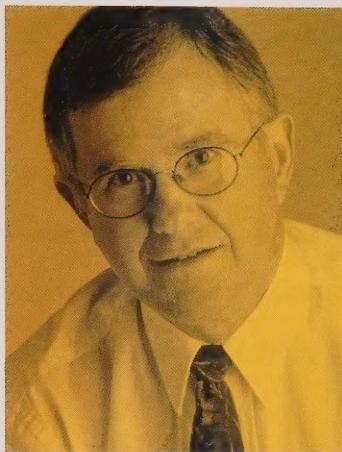
Financially, 1997 was an improvement over 1996. The net loss of \$1,811,000 is gratifyingly close to budget. Ontario Northland, however, still has some distance to go in order to reach the level of profitability necessary to sustain the organization.

I would like to thank, on behalf of all stakeholders, my fellow Commissioners, who gave so generously of their time in 1997. Since 1996, Commission members have served without any remuneration. The reward for all of us comes from making a contribution to the people of Northeastern Ontario, and to an institution of which we as Northerners can justifiably be proud.

Dick Grant, Chair



# Message From the President



1997 was a year of both business growth and continued "uncertainty", particularly with the regulatory review of both the telecommunications and highway passenger services, along with the future prospect of obtaining a contract to haul Metro Toronto's solid waste to the Adams Mine.

This uncertainty, however, did not deter us from aggressively pursuing business expansions. In 1997, Agrium Inc. announced that they would be proceeding with their phosphate mine which involves us constructing a new 27-km spurline. 1997 also saw our entry into the cellular business in Moosonee/Moose Factory and our ONLink network continued to expand with the addition of 25 new communities. Many changes were initiated in 1997 to reverse the declining ridership trend being experienced with our Northlander service, and our Mechanical Department concentrated on bringing outside work into our shops, resulting in a 70 per cent increase in revenues over the previous year.

Essentially, we are continually assessing the changing market environment and looking for opportunities, all with the intent of obtaining new business which enhances our bottom line.

In addition to pursuing new business opportunities, we also concentrated on internal corporate improvements. One of our main priorities is the determined effort to make Ontario Northland a safer place to work, and 1997 showed a significant improvement over the previous year. Everyone is to be commended for their part in bringing about this improvement and our efforts to further enhance the safety at all our work locations continues. Also, a Performance Management System was initiated in 1997, enabling our employees to gain a better appreciation of how their efforts contribute to ONTC's overall goals and objectives.

As we look forward to the challenges that lie before us, I believe the future is bright for Ontario Northland as we shift to a private sector business culture and become less reliant on government funding. At the same time, we must not forget our primary responsibility of serving the people of the North, our customers, providing them with modern, efficient and competitive services so that they too can live, work, and prosper in Northern Ontario. Our customers rely on us and we rely on them, so it is in our best interests to ensure that they continue to receive the best possible services at acceptable rates, and that they keep coming back to Ontario Northland to purchase their services as our markets open up to competition.

John Wallace

President and Chief Executive Officer



# Questions and Answers

Q

**Looking to 1998 and beyond, what is Ontario Northland's number one challenge?**

A  
Answer

In a word, change. Our challenge in the coming years will be to change the way we do business. We need to search for new revenue streams throughout Northern Ontario and find new, more efficient ways to deliver the many services we currently offer. We will have to be more flexible and aggressive in every aspect of our business, never losing sight of our role as a catalyst for growth and development in Northern Ontario.

Q

**What did Ontario Northland do in 1997 to prepare for the future?**

A  
Answer

Our management team developed a business plan with specific action plans and financial projections for each division of the company. The plan focuses on Ontario Northland's initiatives to increase revenue, improve efficiency and reduce the cost of doing business.

Q

**What is Ontario Northland doing to address the Year 2000 problem we have all been hearing about?**

A  
Answer

Under the direction of the Corporate Computer Services Group, Ontario Northland is pursuing the Year 2000 issue as a top priority. We are currently in the process of completing an inventory of corporate computer-based software applications, as well as an impact analysis on individual applications. A corporate committee is also ensuring that the Year 2000 issue is adequately addressed throughout the entire Ontario Northland system.



Q

What did Ontario Northland do to improve safety at our company in 1997?

Answer

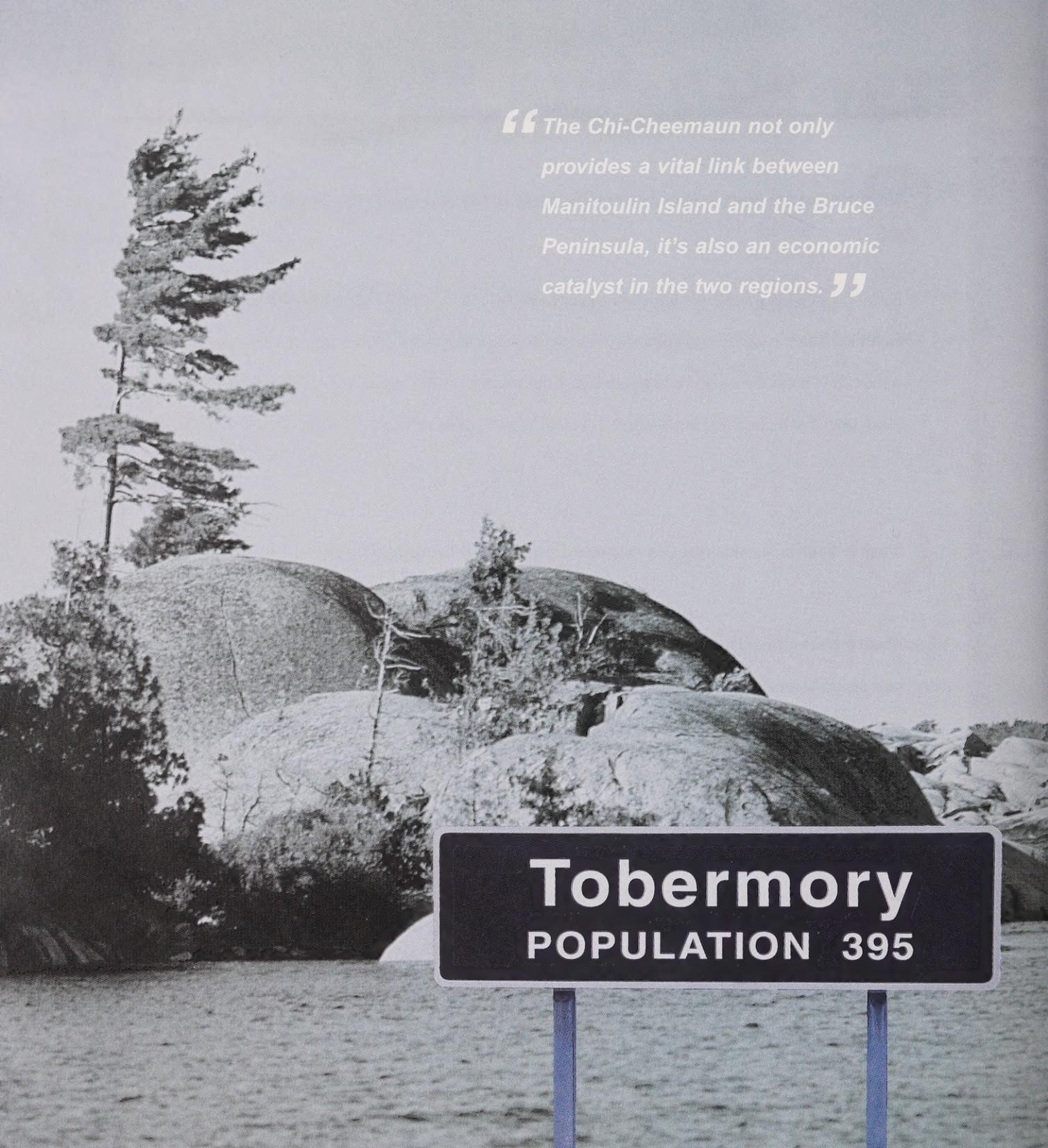
Following an internal audit conducted in conjunction with the Industrial Accident Prevention Association in 1997, we launched "Modern Safety Management," a comprehensive program designed to reduce injuries and losses in the workplace. Three-day training and awareness programs for 120 managers and relief staff were planned for spring 1998. With the support and involvement of employees, we were able to significantly reduce injury losses in 1997.

Q

What is Ontario Northland doing to become more customer-focused?

Answer

There are a number of very good examples throughout this annual report. One in particular is our purchase of 50 new centre-beam lumber cars that save time and money for our freight customers, which allows them to extend their market reach in the United States. Another major innovation is the bus-rail integrated fare structure, which gives our customers lots of flexibility when they travel. We also introduced cellular telephone service for Moosonee and Moose Factory, showing our customers how we can connect them with the rest of the world. And finally, we expanded the number of "Sunset Dinner Cruises" aboard the Chi-Cheemaun, a direct response to customer demand. Customer service will be an ongoing priority for Ontario Northland.



*“The Chi-Cheemaun not only provides a vital link between Manitoulin Island and the Bruce Peninsula, it's also an economic catalyst in the two regions.”*

**Tobermory  
POPULATION 395**



Ontario Northland set a new course for the Marine Services division in 1997.

In the fall of 1997, we launched a new joint marketing initiative for the Chi-Cheemaun with tourism associations on the Bruce Peninsula and Manitoulin Island. Ontario Northland and tourism operators will share resources and market each others' services, leveraging our marketing budgets for maximum effect during the Chi-Cheemaun's 1998 sailing season.

New for the Chi-Cheemaun in 1997 was the "Sunset Dinner Cruise," a smash hit every Friday evening that was expanded to three nights a week shortly after being introduced. We also explored new charter opportunities for the Chi-Cheemaun and will continue with this strategy to increase revenues for 1998.

Another change to Marine Services occurred in 1997 when ownership of the Chief Commanda II was transferred to the City of North Bay.

#### What we do:

- Marine Services are provided by Ontario Northland under the name Owen Sound Transportation Company.
- OSTC operates provincially-mandated ferry services between Tobermory on the Bruce Peninsula and South Baymouth on Manitoulin Island (Chi-Cheemaun).
- The Manitou Island II provides provincially mandated barge ferry service between Moosonee and Moose Factory Island.
- OSTC also provides ferry service on behalf of the Ontario Ministry of Transportation, connecting Kingsville and Leamington, Ontario with Pelee Island and Sandusky, Ohio using the M.V. Jiimaan and the M.V. Pelee Islander.



# Transportation

## Rail Passenger Services

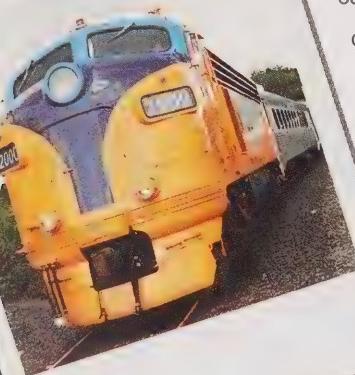
The theme of change dominated the activities of Rail Passenger Services in 1997. We made, and continue to make, significant changes in the way we operate and in the way we serve our customers.

Over the last year we've taken some very important steps toward our goal of becoming a more customer-focused organization. For instance, we made changes

to the Northlander passenger train schedule in response to requests from a large number of customers. We also introduced a new business class service, NorthlanderPlus. In New Liskeard, we set up a small call centre to handle the overload of calls we receive in North Bay. Now, when customers call, we're better able to answer their questions quicker. Expanding our new automated ticketing service to include more stations means we can provide better service to our customers.

We also introduced a new "integrated fare structure", which means customers can use the same ticket — and pay the same fare — whether they travel on the bus or train. This new feature is adding flexibility and convenience to our customers' travel plans.

The Polar Bear Express, a popular rail excursion from Cochrane to Moosonee, continues its contribution to the Northern Ontario tourism industry, carrying more



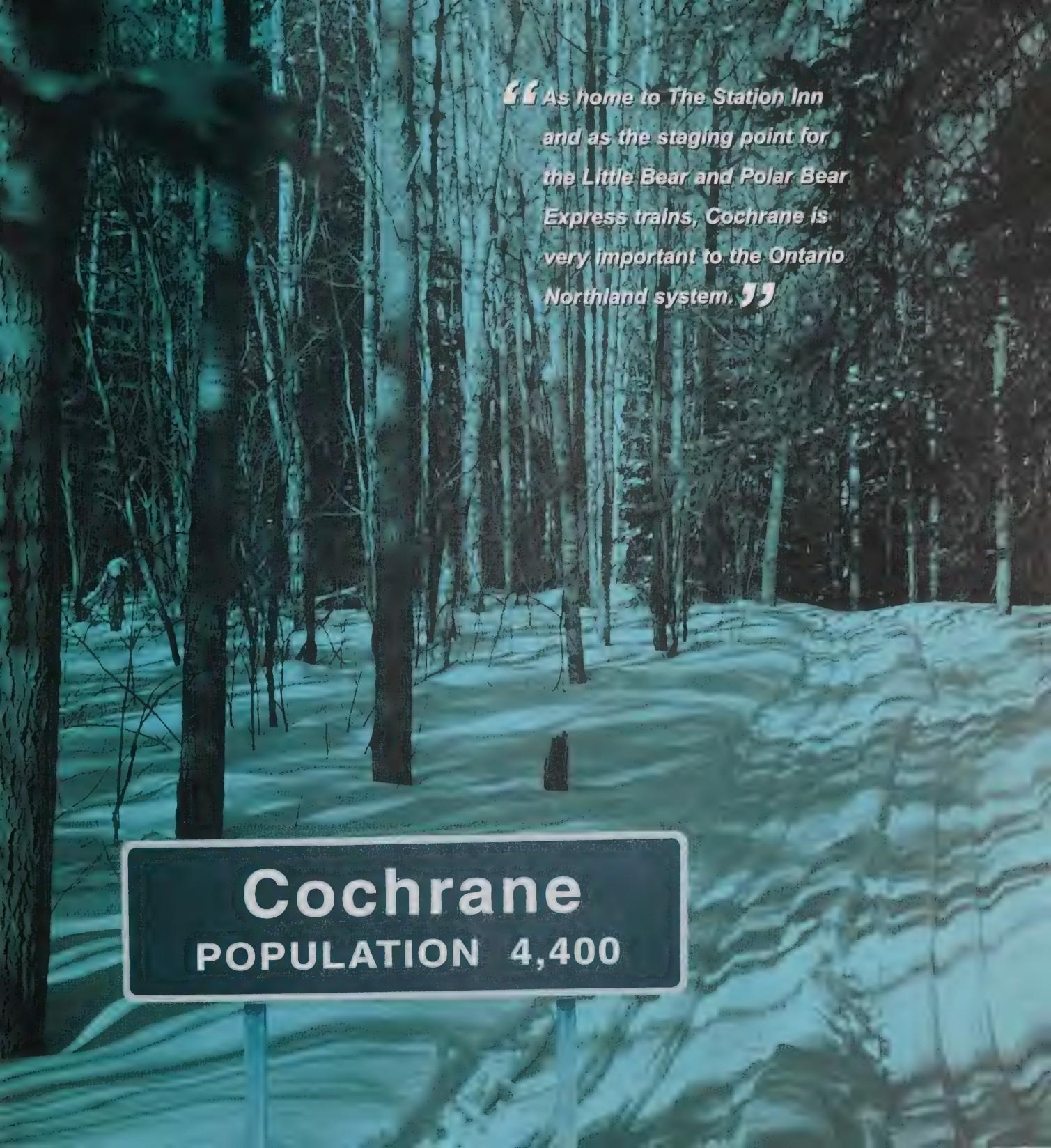
than 15,000 passengers to "the edge of the Arctic." Passenger services is also responsible for the operation of the Station Inn in Cochrane which experienced 97 per cent occupancy in the busy summer months and 53 per cent during the remainder of the year.

The Little Bear, a mixed freight/passenger train continues to provide a vital link for communities north of Cochrane.

In 1997, Ontario Northland launched the "Canoe Car," a special railway car designed and built especially for carrying canoes on the Little Bear, a mixed freight/passenger train which runs between Cochrane and Moosonee.

### What we do:

- Rail Passenger Services operates passenger trains between Toronto and Moosonee. The Northlander operates between Cochrane and Toronto with bus connections to/from Hearst and Timmins.
- The Polar Bear Express is a popular rail excursion that runs between Cochrane and Moosonee during the summer months.
- The Little Bear, one of Canada's last remaining "flag stop" trains, is a mixed freight/passenger train operating on the same route.
- The Station Inn is a full-service hotel and restaurant, popular for tourists in the summer and winter.



**As home to The Station Inn  
and as the staging point for  
the Little Bear and Polar Bear  
Express trains, Cochrane is  
very important to the Ontario  
Northland system.**

**Cochrane  
POPULATION 4,400**



**"One of our key strengths is the ability to provide comfortable, convenient, and affordable travel between Northeastern Ontario and Toronto. 55**

**Toronto**  
**POPULATION 2,183,655**

# Transportation

## Bus Services

Ontario Northland's Bus Services department was extremely active in 1997, developing new strategies for a rapidly changing business environment.

For instance, we entered into some commercial marketing arrangements with other carriers in the private sector.

We've also added trip frequencies on several routes and adjusted schedules in response to customer needs and past ridership statistics. We maintain our competitive edge by continually updating our fleet with new, state-of-the-art motor coaches.

In 1997, we adopted a more responsive attitude to our customers' needs. That's why we made major adjustments to our schedule in 1997. For instance, after examining passenger loads between North Bay and Toronto, we put a business case together, supporting the addition of a semi-express run. We have already experienced an increase in ridership on this route.

One of our main concerns continues to be the safety of all bus passengers in the province.

Ontario Northland's Bus Services department will emphasize its position as a leader in safe travel on Ontario's highways.

We also launched an aggressive marketing campaign for Bus Parcel Express, resulting in a 6.5 per cent increase in volume in 1997.

### What we do:

- Bus Services operates a fleet of 26 buses, providing scheduled bus service between Toronto and Northeastern Ontario.
- Charter and tour services are provided throughout North America.
- Bus Parcel Express is a shipping/courier service that is handled through scheduled bus routes.





# Transportation

## Rail Freight Services

Changing customer strategies and several other business improvement initiatives dominated the 1997 agenda at Ontario Northland's Rail Freight Services.

Our freight marketing department has been working with customers developing partnerships and strategies to better serve their transportation and distribution needs. One of our success stories was the purchase of 50, 73-foot centre beam lumber cars in 1997.

The new cars are saving time and money for our lumber mill customers because they're easier to load and unload. This initiative is also making it cost effective for our customers to penetrate more markets in the United States.

We also worked closely with another customer, Agrium Inc., on their phosphate mine project in the Kapuskasing area.

Agrium Inc. was considering several alternatives for transporting their raw material from the mine site by truck and then by rail to their final destination. We worked out an agreement to build a 27-kilometre rail spur that would allow the company to ship directly by rail right from the mine site... another great example of how rail freight

services can provide solutions to our customers rather than just offering a basic transportation service.

Rail Freight Services is also developing new information technologies to improve work planning and increase our operating efficiencies.

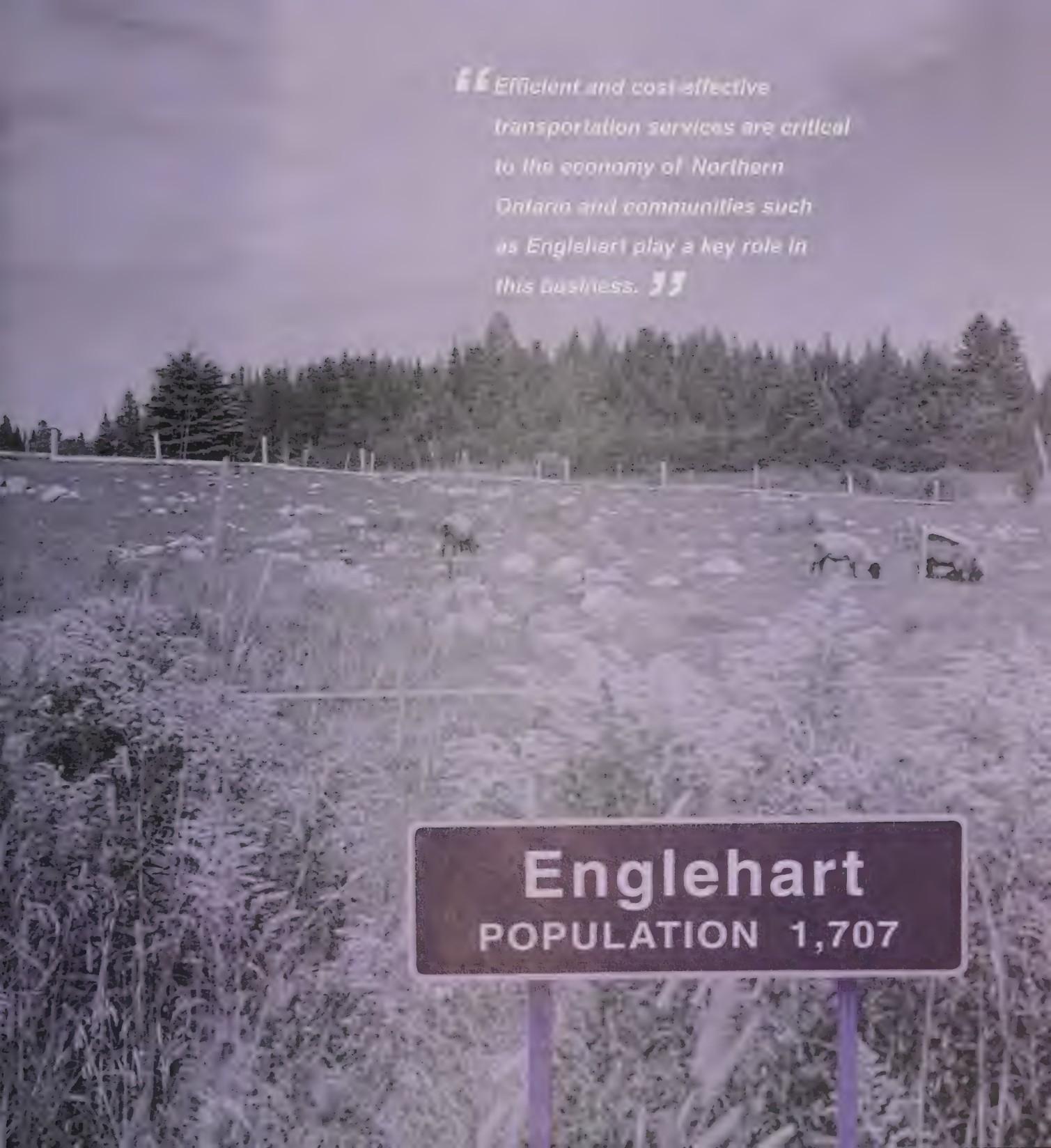
Ontario Northland, in partnership with the private sector, continued its efforts to secure a contract for the shipment of solid waste from the Toronto area to the abandoned Adams Mine site near Kirkland Lake.

In 1997, Ontario Northland continued its alliance with short line railway companies to provide repair and overhaul locomotive contract work for them. Rail Freight expects to double contract work over the next three years.

### What we do:

- Rail Freight Services is engaged in the transportation of mineral and forestry products, as well as chemicals, petroleum and other products to and from Northeastern Ontario and northwestern Quebec. The 700-mile rail system connects to CN and CP at North Bay, CN at Rouyn-Noranda and ACRI at Hearst.
- The shops in North Bay perform a variety of contract work for external customers, including rolling stock rebuilds, repairs, and overhauls.

**Efficient and cost-effective transportation services are critical to the economy of Northern Ontario and communities such as Englehart play a key role in this business.**



**Englehart**  
POPULATION 1,707



# Telecommunications

## O.N.Tel

In the dynamic business of communications, change is constant. That was especially true in 1997 for O.N.Tel, the telecommunications arm of Ontario Northland.

In 1997, we embarked on a major re-organization, essentially separating Ontario Northland's telecommunications division into two entities. The new O.N.Tel Inc., a wholly-owned subsidiary of Ontario

Northland, will be set up in 1998 to engage in all telecommunications activities that are conducted under the Canadian Radio-television Telecommunications Commission's regulations. The remaining operations, including ONLink and O.N.Systems, were combined into a new unit called Information Technology Solutions.

Our investment in the Northern Ontario telecommunications infrastructure continued in 1997 as we completed

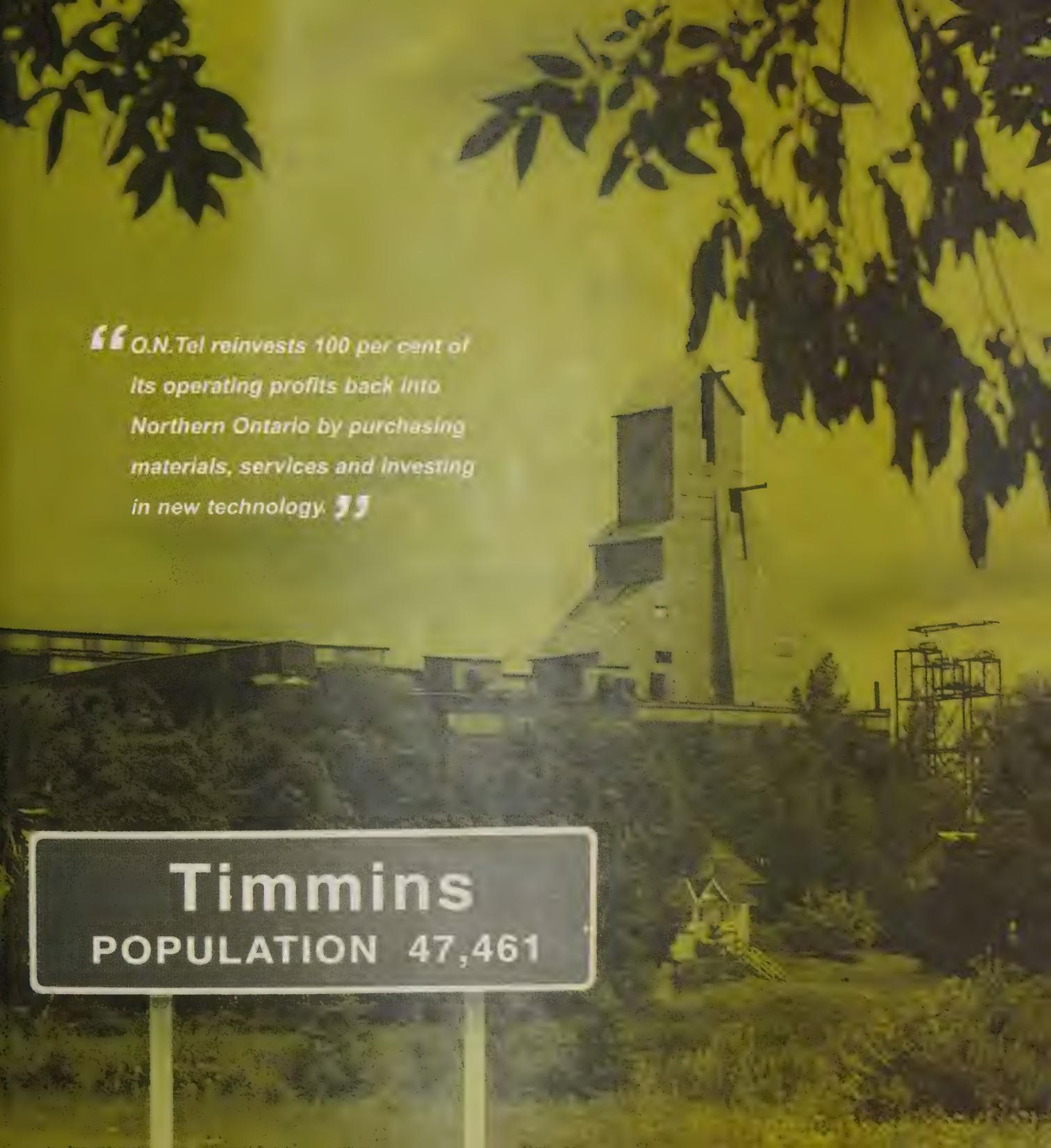


fibre optic systems from Cochrane to Hearst with fibre also being extended to Ramore and Matheson. Other highlights for 1997 included the introduction of cellular service for Moosonee and Moose Factory, a new exchange building and remote switch also in Moose Factory and fibre system across the Moose River.

In 1997, O.N.Tel enjoyed a long distance volume growth of 5 per cent and an increase in local telephone customers of 7 per cent. In the meantime, customer responses to our surveys continue to indicate high levels of satisfaction with our staff and services.

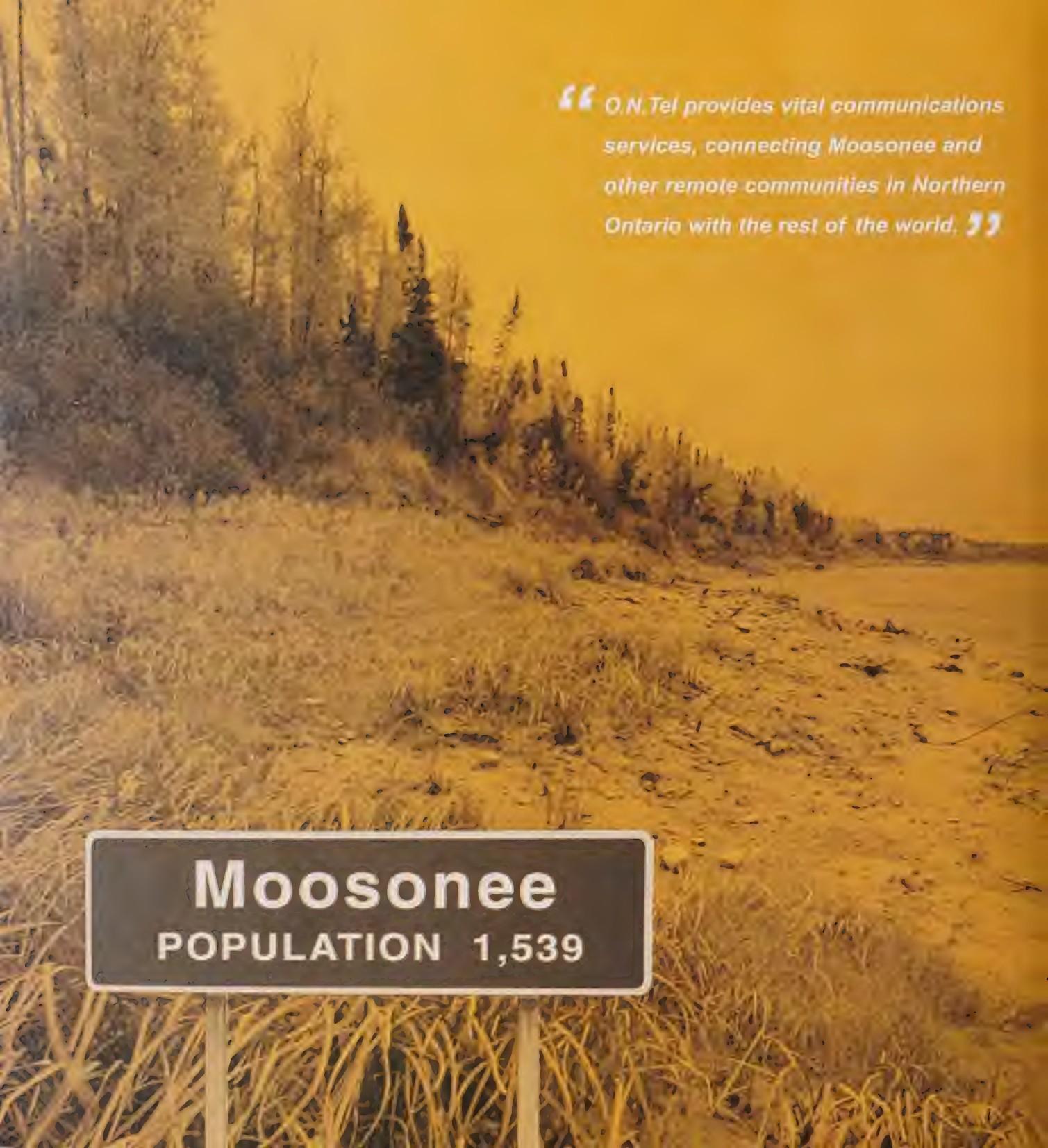
## What we do:

- Serving a population of 150,000 people and covering a 200,000 square kilometre area, O.N.Tel is an interexchange telecommunications carrier in Northeastern Ontario.
- O.N.Tel provides a full range of long distance services and also delivers CBC programming (video) services to Northeastern Ontario.
- O.N.Tel provides local telephone service in Moosonee, Moose Factory, Temagami and Marten River.



**"O.N.Tel reinvests 100 per cent of its operating profits back into Northern Ontario by purchasing materials, services and investing in new technology."**

**Timmins**  
**POPULATION 47,461**



*"O.N.Tel provides vital communications services, connecting Moosonee and other remote communities in Northern Ontario with the rest of the world."*

**Moosonee**  
**POPULATION 1,539**



# Telecommunications

## I.T. Solutions

Information technology changes on a daily basis. That's why it's so important for Ontario Northland to stay on the leading edge of this dynamic sector of the new economy.



In 1997, O.N.Systems was able to stay on the leading edge by continuing to develop its key partnerships with private sector companies such as IBM and CISCO.

Steady growth in the information technology sector continues to bode well for the Systems group, exerting a positive influence on the company's bottom line. For

example, ONLink, our highly successful Internet Service Provider which serves more than 85 communities throughout Northern Ontario, experienced a growth rate of 137 per cent in 1997. We continue to work on a steady and healthy expansion of this part of our business.



### What we do:

- I.T. Solutions markets a complete range of data-communications and networking products and services, offering customers total system solutions.
- A strategic business alliance with IBM enables the Systems group to support a wide range of computer hardware and software applications, as well as information technology consulting.
- ONLink, O.N.Tel's highly successful Internet service provider, offers a full range of services in more than 85 communities throughout Northern Ontario.
- I.T. Solutions delivers private mobile services, primarily for large utilities.

# Corporate Services

**Corporate Services is comprised of eight departments:**

- Communications and Public Affairs
- Corporate Computer Services Group
- Corporate Planning
- Corporate Realty
- Finance
- Human Resources
- Legal Services
- Purchasing
- Security

In a year dominated by change, the Corporate Services division of Ontario Northland played a key role in managing and assisting with numerous strategic company projects while continuing to provide essential corporate support for both internal and external customers.

One of our key projects in 1997 was the support and co-ordination provided in the development of a major Business Plan, which will chart a course for Ontario Northland for the years 1998 to 2002.

In line with Ontario Northland's goal to improve management skills, we developed a performance management system in 1997 for implementation in 1998. The performance management training for the system took place during the fall of 1997.

Around the always important safety issue, the development and implementation of an enhanced safety program was one of the year's major corporate initiatives.

As part of the review of surplus land and buildings, Corporate Realty handled the sale of the Barrie Bus Terminal.

Our Finance and Human Resources departments provided support services for the O.N.Tel spin-off which is scheduled to be implemented in 1998.

## Public Sector Salary Disclosure Act

December 31

Name	Position	Salary	Taxable Benefits
K J Wallace	President and C.E.O.	\$ 148,089	\$ 8,651
R G Leach	Vice President Rail Services	109,994	1,160
R S Hutton	Vice President O.N.Tel	116,108	1,275
S G Carmichael	Vice President Finance and Administration	116,108	1,275
H R St. George	Machine Operator	103,167	204

## **Financial Results**

Despite a loss of \$1,811,000 in 1997, this financial result represented a substantial improvement over the 1996 loss of \$19,411,000. Examination of the financial results for 1997 and comparative results for 1996, as included in this report, highlights the progress which has been achieved.

A number of factors combined to make Ontario Northland's 1996 financial results the worst in the organization's history. A rapidly changing environment included increased competition and a changing regulatory framework. During 1996, the Province reduced its reimbursements to Ontario Northland for provision of non-commercial services (i.e. those services which are inherently unprofitable but support public service initiatives).

Ontario Northland has undertaken substantial restructuring and service rationalization initiatives in order to improve its future viability. 167 positions were reduced from the work force through early retirements in 1996. Write-downs of capital assets and major reorganization costs were incurred. A business plan to bring the organization back to profitability was developed.

The improved financial results for 1997 represent a major step in the organization's effort to return to long-term viability and reflect the benefits of some of the steps taken to date. Increased efficiencies and reduced costs have resulted from restructuring and service rationalization. Ontario Northland's Business Plan contains further measures, including capital investment, to obtain further efficiency gains as well as initiatives to secure new business. A return to profitability is forecast by the year 2000.

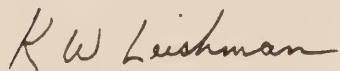
## Auditors' Report

To the Ontario Northland Transportation Commission and to the  
Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at December 31, 1997 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1997 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.



K. W. Leishman, CA  
Assistant Provincial Auditor

Toronto, Ontario  
April 3, 1998

# Ontario Northland Transportation Commission Consolidated Balance Sheet

(dollars in thousands)

December 31	1997	(Note 20) 1996
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable	\$ 15,386	\$ 16,651
Inventory	8,855	8,735
Prepaid expenses	288	242
	24,529	25,628
<b>Self-Insurance Fund (Note 1)</b>		
- Market value \$4,350; (1996 - \$3,962)	4,052	3,566
<b>Long-term receivables (Note 17)</b>	3,514	2,764
<b>Investment in Capital Assets (Schedule 1) (Notes 10 and 13)</b>	228,473	226,574
<b>Deferred Pension Charge (Note 3)</b>	8,100	7,110
	\$ 268,668	\$ 265,642
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Bank loans and overdrafts (Note 2)	\$ 1,609	\$ 5,612
Accounts payable and accrued charges	11,331	14,752
Deferred revenue	342	123
	13,282	20,487
<b>Provision for Self-Insurance (Note 1)</b>	4,052	3,566
<b>Long-Term Debt (Note 4)</b>	35,208	35,208
	52,542	59,261
<b>Contingencies (Note 12)</b>		
<b>Province of Ontario Equity</b>		
Contributed surplus	24,614	13,058
Retained earnings	191,512	193,323
	216,126	206,381
	\$ 268,668	\$ 265,642

Approved on behalf of the Commission:

R. Grant, Chair

K. J. Wallace, President and CEO

**Ontario Northland Transportation Commission**  
**Consolidated Statement of Operations and Retained Earnings**

(dollars in thousands)

	1997	1996 (Note 20)
For the year ended December 31		1996
<b>Operating Revenues (Schedule 2)</b>	<b>\$ 136,132</b>	\$ 135,215
<b>Operating Expenses (Schedule 2)</b>	<b>127,863</b>	128,433
<b>Operating Income from Continuing Operations</b>	<b>8,269</b>	6,782
<b>Other Expenses</b>		
Amortization (Schedule 2)	10,731	11,204
Retirement incentive (Note 5)	225	5,664
Write-down of capital assets (Note 8)	-	5,520
Regulatory approval (Note 9)	403	1,200
Investment and other income	(443)	(919)
Interest expense (Schedule 2)	36	264
(Gain) loss on sale of capital assets (Schedule 2)	(872)	263
	10,080	23,196
<b>Loss from Continuing Operations</b>	<b>(1,811)</b>	(16,414)
<b>Discontinued Operations (Note 10)</b>		
Loss from operations of discontinued Air Services division	-	(2,997)
<b>Net Loss for the year</b>	<b>(1,811)</b>	(19,411)
<b>Retained Earnings - beginning of year</b>	<b>193,323</b>	212,734
<b>Retained Earnings - end of year</b>	<b>\$ 191,512</b>	\$ 193,323

**Ontario Northland Transportation Commission  
Consolidated Statement of Contributed Surplus**

(dollars in thousands)

	1997	(Note 20) 1996
For the year ended December 31		
<b>Balance - beginning of year</b>	<b>\$ 13,058</b>	<b>\$ 12,674</b>
<b>Add:</b> Contributions from the Province of Ontario (Note 11)	<b>12,347</b>	<b>1,395</b>
<b>Less:</b> Amortization	655	1,011
Retirements	136	-
<b>Balance - end of year</b>	<b>\$ 24,614</b>	<b>\$ 13,058</b>

**Ontario Northland Transportation Commission  
Consolidated Statement of Changes in Financial Position**

(dollars in thousands)

For the year ended December 31

1997

(Note 20)  
1996

**Operating Activities**

Loss from continuing operations	\$ (1,811)	\$ (16,414)
Loss from discontinued operations (Note 10)	-	(2,997)
Net loss for the year	(1,811)	(19,411)
Items not affecting cash		
- amortization (Note 10 and Schedule 2)	10,731	11,222
- (gain) loss on sale of capital assets	(872)	263
- loss on write-down of capital assets (Note 8)	-	5,520
	8,048	(2,406)

**Changes in non-cash working capital balances**

Decrease in accounts receivable	1,265	5,265
(Increase) decrease in inventory	(120)	343
(Increase) decrease in prepaid expenses	(46)	199
Decrease in accounts payable and accrued charges	(3,421)	(610)
(Increase) decrease in deferred revenue	219	(195)
	5,945	2,596

**Financing Activities**

Reduction of term bank loan	-	(4,000)
Proceeds from Province of Ontario (Note 11)	12,347	1,395
	12,347	(2,605)

**Investing Activities**

Investment in capital assets	(15,021)	(15,222)
Proceeds from sale of capital assets	2,472	2,389
Increase in other assets	(1,740)	(2,059)
	(14,289)	(14,892)

**Increase (decrease) Cash and Short-Term Investments  
during the year**

4,003

(14,901)

**(Bank Loans and Overdraft) Cash and Short-Term  
Investments - beginning of year**

(5,612)

9,289

**Bank Loans and Overdraft - end of year**

\$ (1,609)

\$ (5,612)

**Ontario Northland Transportation Commission  
Consolidated Schedule of Investment in Capital Assets  
Schedule 1**

(dollars in thousands)

December 31		1997	(Note 20) 1996
	Cost	Accumulated Amortization	Net Book Value
<b>Rail Services</b>			
Roadway	\$ 150,784	\$ 57,515	\$ 93,269
Buildings	35,486	9,644	25,842
Equipment	77,086	29,520	47,566
Under construction	1,071	-	1,071
<b>Telecommunications</b>			
Equipment	96,103	57,313	38,790
Buildings	3,433	1,273	2,160
Under construction	2,447	-	2,447
<b>Marine Services (Owen Sound)</b>			
Vessels	16,270	9,889	6,381
Land and buildings	126	42	84
Equipment	244	241	3
Under construction	-	-	74
<b>Bus Services</b>			
Coaches	7,642	3,379	4,263
Land and buildings	-	-	-
Under construction	151	-	151
<b>Marine Services (North Bay and Moosonee)</b>			
Vessels	385	243	142
Buildings	105	48	57
Under construction	-	-	-
<b>Development</b>			
Land and buildings	8,509	2,262	6,247
	\$ 399,842	\$ 171,369	\$ 228,473
			\$ 226,574

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Operating Revenues and Expenses**  
**Schedule 2**

(dollars in thousands)

For the year ended December 31

(Note 20)  
1997  
1996

**Rail Services**

Sales revenue	\$ 57,510	\$ 58,009
Government reimbursement (Note 6)	7,720	10,298
Operating revenue	65,230	68,307
Operating expense	67,488	70,479
Operating loss from continuing operations	(2,258)	(2,172)
Amortization	5,424	5,403
(Gain) loss on sale of capital assets	(286)	1,020
Interest expense	36	-
Loss from operations	(7,432)	(8,595)

**Telecommunications**

Sales revenue (Note 7)	52,414	48,290
Operating expense	35,187	32,474
Operating income from continuing operations	17,227	15,816
Amortization	3,927	3,716
Loss on sale of capital assets	13	14
Income from operations	13,287	12,086

**Bus Services**

Sales revenue	9,010	9,448
Operating expense	8,451	8,850
Operating income from continuing operations	559	598
Amortization	590	1,269
Gain on sale of capital assets	(328)	(145)
Interest expense	-	195
Income (loss) from operations	297	(721)

**Marine Services (Owen Sound)**

Sales revenue	4,556	4,412
Government reimbursement (Note 6)	890	890
Operating revenue	5,446	5,302
Operating expense	5,421	5,701
Operating income (loss) from continuing operations	25	(399)
Amortization	366	362
Loss from operations	(341)	(761)

**Marine Services (Pelee Island) (Note 19)**

Sales revenue	3,444	3,234
Operating expense	3,144	2,940
Income from operations	300	294

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Operating Revenues and Expenses**  
**Schedule 2 (continued)**

(dollars in thousands)

For the year ended December 31	1997	(Note 20) 1996
<b>Marine Services (North Bay)</b>		
Sales revenue	\$ -	\$ 4
Operating expense	3	15
Operating loss from continuing operations	(3)	(11)
Loss on sale of capital assets	132	-
Amortization	19	21
Loss from operations	(154)	(32)
<b>Marine Services (Moosonee)</b>		
Sales revenue	118	121
Government reimbursement (Note 6)	50	50
Operating revenue	168	171
Operating expense	184	161
(Loss) income from operations	(16)	10
<b>Air Service Contracts</b>		
Sales revenue	-	-
Operating expense	999	-
Loss from operations	(999)	-
<b>Development (Office Building)</b>		
Sales revenue	420	459
Operating expense	266	273
Operating income from continuing operations	154	186
Amortization	127	127
Gain on sale of capital assets	(403)	(626)
Income from operations	430	685
<b>Administration</b>		
Sales revenue	6,720	7,540
Operating expense	(6,720)	(7,540)
Operating loss from continuing operations	278	306
Amortization	-	69
Interest expense	-	-
Loss from operations	(6,998)	(7,915)

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Operating Revenues and Expenses**  
**Schedule 2 (continued)**

(dollars in thousands)

	1997	(Note 20) 1996
For the year ended December 31		
<b>Total Operations</b>		
Sales revenue	<b>127,472</b>	123,977
Government reimbursement (Note 6)	<b>8,660</b>	11,238
Operating revenues	<b>136,132</b>	135,215
Operating expenses	<b>127,863</b>	128,433
Operating income from continuing operations	<b>8,269</b>	6,782
Amortization	<b>10,731</b>	11,204
Interest expense	<b>36</b>	264
(Gain) loss on sale of capital assets	<b>(872)</b>	263
<b>Loss from Operations</b>	<b>\$ (1,626)</b>	\$ (4,949)

# Ontario Northland Transportation Commission

## Summary of Significant Accounting Policies

December 31, 1997

### Basis of Accounting

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, Northern Canada Transportation Limited, Star Transfer Limited, The Owen Sound Transportation Company, Limited, Air-Dale Limited and Nipissing Central Railway Company.

### Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis.

### Materials and Supplies

With the exception of used rail and bulk diesel fuel, all materials and supplies are valued at the most recent price paid. Used rail is shown at unamortized book value determined at the time of retirement and bulk diesel fuel is valued at average cost.

### Investment in Capital Assets and Amortization

Capital assets are stated at acquisition cost. Amortization is calculated using the straight line method over the estimated service lives of the assets.

The estimated service lives for principal categories of assets are as follows:

Roadway - main line and branches .....	20 to 50 years
Railway diesel locomotives .....	25 years
Railway cars .....	33 years
Marine vessels .....	20 to 30 years
Buildings .....	50 years
Telecommunications equipment .....	15 years
Vehicles .....	3 years
Coaches .....	12 years

# **Ontario Northland Transportation Commission**

## **Summary of Significant Accounting Policies (continued)**

December 31, 1997

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

### **Self-Insurance Fund**

The self-insurance fund assets are stated at acquisition cost.

### **Income Taxes**

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

# **Ontario Northland Transportation Commission**

## **Notes to Consolidated Financial Statements**

December 31, 1997

### **1 Self-Insurance Fund**

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100,000 premium paid by the Commission in addition to investment income earned on fund assets. Due to larger than anticipated disbursements from the fund in 1996 resulting from several rail derailments, the Commission approved an increase in the premium paid in 1997 to \$500,000 (1996 - \$1,500,000). Fund assets are comprised of investments in federal and provincial government bonds.

### **2 Operating Line of Credit**

At December 31, 1997, the Commission had an \$8,000,000 demand operating line of credit bearing interest at prime. The line is secured by a letter of guarantee reimbursement agreement, operating credit line agreement and bankers acceptance agreement. Included in bank loans and overdrafts at year end are draws on the line of \$Nil (1996 - \$1,941,000).

### **3 Deferred Pension Charge**

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1997 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five-year period.

The Commission's share of the net cost of pension benefits earned by employees during the year was \$1,120,000 (1996 - \$2,403,000). In 1997 the Commission funded the amount of \$2,108,000 (1996 - \$2,376,000). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1997 disclosed market value of plan assets of \$365,456,000 (1996 - \$325,672,000) and present value of accrued pension benefits of \$298,910,000 (1996 - \$297,424,000). This valuation assumed an expected rate of return on plan assets of 6-1/2 per cent and projected pay increases of 4-1/2 per cent.

### **4 Long-Term Debt**

Long-term debt is comprised of the following:

	1997	1996
Loan from Province of Ontario, non-interest bearing with no specific terms of repayment.	\$ 35,208,000	\$ 35,208,000

# Ontario Northland Transportation Commission

## Notes to Consolidated Financial Statements

December 31, 1997

### 5 Retirement Incentive

In connection with changes to government reimbursement and as a response to the general economic climate, incentives to retire were extended to a number of the Commission's employees in 1996. A total of 167 employees accepted the offer at a cost of \$5,664,000. Total expense reflected at December 31, 1997 is \$225,000, this represents the underaccrual for settlement of the 1996 retirements and an additional four employees retired in 1997.

### 6 Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1997. In 1995, the provincial government announced a plan to reduce reimbursements to the Commission. Reductions amounted to \$7,000,000 in 1996 and \$4,000,000 in 1997.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement has been fixed at \$2,500,000 for a five-year period.

Details of Government Reimbursement are as follows:

	1997	1996
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 3,231,000	\$ 7,230,000
Marine Services (Moosonee)	50,000	50,000
Marine Services (Owen Sound)	890,000	890,000
	<hr/> 4,171,000	<hr/> 8,170,000
From National Transportation Agency:		
Current year's operations	1,342,000	1,342,000
Adjustments from prior years	1,989,000	476,000
	<hr/> 1,989,000	<hr/> 1,818,000
From Transport Canada:		
Current year's operations	2,500,000	1,250,000
	<hr/> \$ 8,660,000	<hr/> \$ 11,238,000

# **Ontario Northland Transportation Commission**

## **Notes to Consolidated Financial Statements**

December 31, 1997

### **7 Telecommunications Revenue Agreements**

The Commission has a traffic agreement with Bell Canada that covers all long distance services that either originate within and terminate outside, or originate outside and terminate within the Commission's service area. This agreement may be terminated by either party after giving 180 days notice. Bell Canada gave notice that they wished to terminate this agreement in 1997. Pending final negotiation of a new agreement, the terms and conditions of the old agreement are being continued on a monthly basis. During 1997 the Commission received and recognized \$3,417,000 from Bell Canada in revenue settlement adjustments for prior periods dating back to 1987.

### **8 Write-down of Capital Assets**

During 1996 steps were taken to dispose of the ferry vessel Nindawayma and certain land and buildings associated with bus operations. It became apparent that the net realizable value of these capital assets had declined to a level below carrying values. Accordingly in 1996, the ferry vessel Nindawayma was written down by \$4,400,000 and the land and buildings have been written down by \$1,120,000.

### **9 Regulatory Approval**

In order to secure new rail freight traffic, the Commission is participating in the funding of the regulatory approval process required to obtain a license to use the former Adams Mine as a solid waste disposal site. The costs are being shared between the Commission and two other companies. The amounts are being charged to operations in the year of payment. In 1997 the Commission's final commitment was paid.

### **10 Discontinued Operations**

In December 1995, the Commission implemented a plan to discontinue the Air Services division (norOntair). The phase out period extended into 1996 as a replacement service for the communities affected was sought. The results of operations of this division for the period January 1, 1996 to December 31, 1996 are included in Discontinued Operations - Loss from operations of discontinued Air Services division. Net assets of the division were disposed of by way of public tender. A successful bid for the sale of aircraft was accepted in the amount of \$9.4(US) million during 1996, but conclusion of the sale did not take place until the first quarter of 1997. Other assets of the division were disposed of during 1996 in the amount of \$1,395,000. Assets of the division retained by the Commission were valued at \$794,000 as at December 31, 1996 with a net book value of Nil when offset against related contributed surplus. Included in the loss from the Air Services division for the period ended December 31, 1996 is \$18,000 in amortization. Sales for the period ended December 31, 1996 amounted to \$1,920,000.

The Commission contracted for the provision of alternate transportation for some of the affected communities until other arrangements could be made. This contractual arrangement extended into the second quarter of 1997. Upon completion of this contract, the Commission began the provision of funds directly to some of the affected communities in order that they may arrange alternate modes of transport. These payments may be found in Schedule 2 under the caption Air Service Contracts, and payments will extend into 1999.

# **Ontario Northland Transportation Commission**

## **Notes to Consolidated Financial Statements**

December 31, 1997

### **11 Contributions from the Province of Ontario**

Proceeds on disposition of \$12,347,000 (1996 - \$1,395,000) from the sale of capital assets as a result of the closure of the Air Services division (norOntair) are being treated as an injection of surplus from the Province of Ontario. This approach has been taken because the Commission was reimbursed the cost of the assets by the Province of Ontario on their original purchase. The net book value of the assets was essentially Nil when offset by unamortized contributed surplus. The funds received upon sale of these capital assets are to be earmarked for the restructuring of operations, pursuit of new viable business opportunities and the recapitalization of equipment.

### **12 Contingencies**

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

### **13 Government Assistance**

Under an agreement dated February 24, 1992 the Commission became eligible to receive \$4,250,000 in loan proceeds from the Northern Ontario Heritage Fund Corporation (the Heritage Fund), to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1997 a total of \$4,151,000 (1996 - \$4,151,000) has been received and has been recorded as a reduction of the cost of the capital assets.

### **14 Financial Instruments**

At December 31, 1997, the fair market value of the Commission's cash and short term investments, accounts receivable, bank loans and overdrafts, accrued charges and deferred revenue approximated their carrying value. A portion of the Commission's accounts payable will be settled in US dollars within twelve months of the date of these financial statements.

The effect of these transactions on the financial results of the Commission is expected to be immaterial.

# **Ontario Northland Transportation Commission**

## **Notes to Consolidated Financial Statements**

December 31, 1997

### **15 Year 2000 Issues**

Management has initiated an enterprise-wide program to prepare the Commission's computer systems and applications for the year 2000. The Commission expects to incur internal staff costs as well as consulting and other expenses related to infrastructure and facilities enhancements necessary to prepare the systems for the year 2000. Testing and conversion of system applications is expected to occur over the next two years. The Commission does not expect the amounts associated with testing and conversion to have a material effect on its financial position or results of operations. A significant proportion of these costs are not likely to be incremental costs to the Commission, but rather will represent the deployment of existing information technology resources.

### **16 Related Party Transactions**

During the year, the Commission charged the ONTC Contributory Pension Fund \$283,000 (1996 - Nil) for administrative support.

During 1997, the Rail Services division (of the Commission) charged the Telecommunications division (of the Commission) \$985,000 (1996 - \$Nil) for the use of right of-way over Rail Services land. This amount is disclosed as revenue to the Rail Services division and an expense to the Telecommunications division. Management believes that this transaction was consummated on terms no more or less favourable than those that could have been obtained from other third parties.

### **17 Long-Term Receivables**

	<b>1997</b>	<b>1996</b>
Mortgage receivable, 7 per cent, due April 1999, payments of interest only, due semi annually, secured by land.	\$ 650,000	\$ -
Long-term receivables - Amounts recoverable from parties as the result of operational events which will be resolved beyond the next fiscal period.	2,864,000	2,764,000
	\$ 3,514,000	\$ 2,764,000

### **18 Subsequent Events**

- a. In 1998, the Commission will transfer the net assets of its telecommunications division to a 100 per cent owned subsidiary, O.N.Tel Inc. Articles of Amendment will be filed in 1998, changing the name of the 100 per cent owned subsidiary Northern Canada Transportation Limited to O.N.Tel Inc.
- b. On March 31, 1998, the Commission and the Ontario Financing Authority agreed to a new term loan in the amount of \$3,945,000 for a term and amortization period of 120 months, at 5.64 per cent, calculated half yearly not in advance. The interest adjustment date is April 1, 1998, with the first payment commencing May 1, 1998 to and including April 1, 2008 with monthly blended payments of \$42,959.

# **Ontario Northland Transportation Commission**

## **Notes to Consolidated Financial Statements**

December 31, 1997

### **19 Marine Services Revenue - Pelee Island**

The contract for the provision of marine services to Pelee Island is subject to renewal December 31, 1997. The contract was renewed for a one-year period from January 1, 1998 to December 31, 1998.

### **20 Comparative Figures**

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

## ONTARIO NORTHLAND TRANSPORTATION COMMISSION

**M. K. Rukavina** Chair (Jan - Nov)

**E. C. Beck** Commissioner - Moose Factory

**V. Monestime Belter** Commissioner - Mattawa

**W. P. Clement** Commissioner - Sudbury

**R. Grant** Commissioner - New Liskeard (Jan - Nov)  
Acting Chair (Dec)

**S. L. Hacio** Commissioner - Thunder Bay

**D. S. Hughes** Commissioner - Cochrane

**K. Okell** Commissioner - North Bay

**L. Richards** Commissioner - Timmins

**R. J. Richardson** Commissioner - North Bay

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**S. G. Carmichael** Vice-President, Finance and Administration

**R. S. Hutton** Vice-President, O.N.Tel

**R. G. Leach** Vice-President, Transportation Services

**T. O'Connell** Counsel







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